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December 6, 1974

The Honorable Henry A. Kissinger  
The Secretary of State  
Department of State  
Washington, D. C. 20520

Dear Henry:

I am extremely pleased and grateful that you will be hosting our Executive Committee Monday night, and we all look forward eagerly to what you will have to say on the extremely critical issues of the day.

I have just gotten the preliminary text of what George Ball plans to say to our group Sunday night. In view of the fact that his position on a number of issues is somewhat different from that of the Administration, I thought the proper thing for me to do would be to let you have an advance copy. In any case, I did not want you to be taken unawares by Ball's contribution.

Again, with many thanks and looking forward to seeing you,

Cordially,

*Zb.*

Zbigniew Brzezinski

Enclosure

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Speech by George Ball  
12/8/74 - Trilateral Comm.

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I

In approaching foreign policy we all too frequently accept glib slogans as the immutable truth and build diplomatic strategies on premises whose validity depends solely on their constant repetition. For example, it had until recently been an article of faith that the Arab nations could never achieve anything approaching unity -- or long sustain it if they ever achieved it -- and that they were quite incapable of the effective common action that the West had so brilliantly demonstrated during the past three decades.

Yet if we have learned anything from our experience with the energy crisis of the past year -- and I am not sure we have -- we had better cast aside that particular item of conventional wisdom. For, during a time when the Arab nations have displayed remarkable solidarity both within and outside of the OPEC, America, Europe and Japan have been caught in a hopeless snarl of cross purposes. Each of our nations has sought self-centered nationalistic solutions for problems inherently soluble only through coordinated action, while more effort has been expended in trying to frustrate one another's tactics than in seeking an efficacious key to common action.

Some of our nations have been more self-centered than others. Gaullism still lingers as a conditioned reflex in French politics -- with Messrs. Debre and Jobert anxiously overseeing its purity -- while West Germany fears to become the paymaster of Europe. But in the indictment of recent policy, I would emphatically include the United States Government, for during the past year the chart of official statements and speeches emanating from Washington has fluctuated more widely than the Dow-Jones averages.

From the outset of the oil crisis we displayed <sup>12/8/74</sup> 2  
 an obxuse lack of sensitivity to the desperate situation of  
 certain of our allies by failing<sup>2</sup> to share our indigenous oil supplies.

as we had done during earlier oil crises in 1956 and 1967. The  
 recognition that most <sup>other nations</sup> ~~of our allies~~ were in far worse jeopardy  
 than ourselves came only much later and almost as an afterthought.  
 But by then our leadership had lost much of its authority since  
 we had left our hard-pressed allies little option but to try fren-  
 etically to make their own private bilateral deals with the OPEC  
 nations. Later we reacted in much the same myopic way when the Arab  
 nations' politically motivated embargo was followed by a fourfold  
 price increase by the whole of OPEC and the problem became one of  
 price rather than supply. Washington kept its cool to the point of  
 ins<sup>an</sup>ity; there was, our officials blandly told the world, no cause  
 for alarm. The United States could pay its import bills. Though  
 prices had abruptly risen, they would soon start down again. The  
 cartel would fall apart as cartels always did; the market would  
 take care of everything.

Well, of course, the market did not function in such an  
 obliging way. Though during the months that followed the officials  
 continued to mouth a Macawberish optimism, it sounded increasingly  
 hollow until finally, toward the end of September, both the President  
 and the Secretary of State burst out with ominous growling noises  
 at the OPEC countries, declaring that the world would not tolerate  
 the excessive energy costs and hinting darkly that continued OPEC  
 intransigence might trigger some form of military action.

While our leaders talked apocalyptically about oil prices,  
 the financial situation of several of our friends and allies grew  
 daily more precarious and the less developed countries faced des-  
 perate pressure on their already meager living standards. Still the

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American government continued to oppose any special international arrangements for recycling funds to meet emergent requirements, quite cavalierly asserting that the private banking structure could handle the problem -- a view that the banking community recognized as nonsense.

Now -- at long last -- the American Government has abruptly reversed course and has itself proposed a new international facility to assist the recycling process and, while still insisting that the producers' cartel cannot long endure, some American officials are now suggesting that, though the current high prices may not fall very much, that could, after all, be a good thing. If only we take the appropriate domestic action, continuance of such high prices should discourage consumption and encourage the development of alternative sources of energy.

Of course, the consuming nations will all have to reduce their energy consumption and the United States should be commended for its useful promotion of an International Energy Agency to concert plans for that purpose. But so far the Executive Branch has done little to bring about a reduction of America's own oil requirements except talk about it. It has acted -- or avoided action -- on the apparent assumption that hot air can replace petroleum as a source of energy -- an ingenious thesis but with little scientific support. Yet anyone who has traveled about this country is aware that Americans are ready for drastic adjustments in their way of life if assured they are necessary. We even observe the curious anomaly of Mr. Ford of Detroit vainly calling on Mr. Ford in Washington for higher gasoline taxes, when one might think it would be the other way round.

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In directing these rather mordant comments at the American Government, let me again make clear that I do not exonerate from blame other governments either in Europe or Japan or elsewhere in North America. Nationalism has been the order of the day and that bemedalled relic of everyone's ancien regime, Sauve Qui Peut, has been everywhere in command. Leadership has been conspicuous for its absence. No heroes have emerged in any of our closely knit industrial countries to lead us toward a concerted policy that would still take account of the special problems and vulnerabilities of all concerned. It has been an unworthy performance by the entire cast and we should all be ashamed of ourselves.

## II

Although the problem produced by the shift of wealth and power to the OPEC countries is of unprecedented magnitude and complexity, I intend to speak tonight about only one limited aspect: how we can most effectively -- and with the fewest dislocations -- help nations finance severe balance of payments difficulties stemming from increased energy costs until such time as the world can adjust to its new situation.

Today it is fashionable in some quarters to dismiss proposals for recycling as an irrelevance. What is imperative is to bring about the reduction of oil prices. But if that seems outside our current competence, what then do we do? Continue as we have been, paralyzed by indecision?

What, among other things, we urgently need are transitional measures. We are faced, after all, not by a permanent disruption of our financial and economic system but by a problem stemming from timelags in the adjustment process. The primary reason that the four-

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fold increase in oil prices threatens disaster is not that it has occurred but that it has occurred abruptly. Phased over five or ten years such a drastic price change could be absorbed with only minor dislocations. Toward the end of that period progress in the development of alternative sources of energy would tend to exercise a restraint on oil prices. Nations would have time to change their habits of energy utilization, progressively adopting conservation policies that would either reduce demand for oil or stop -- or at least slow -- its rate of increase, while the nations of the Middle East, together with other oil-producing areas of the world, could increase their capacity to "absorb" revenue as they develop their infra-structures and establish broader foundations for agricultural and industrial expansion. Finally, the oil-producing countries could overcome the deficiency that most inhibits them today

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from making intermediate and long-term investments - the lack of an adequate number of personnel trained in complex investment decisions and competent to manage capital funds of tremendous magnitude. As a new generation acquires the requisite skill in those arts the outflow of funds into investments all over the world will greatly increase.

Our problem, then, is to deal with a limited time gap while the world adjusts to high oil prices or those prices fall under the impact of reduced demand resulting from the curtailment of consumption or the increase of supply that follows the development of alternative energy sources. What compounds the difficulty and makes the problem potentially so politically divisive - is that the burden of those prices falls unequally on individual consuming countries. A few, such as the United States, have indigenous oil production that covers the largest part of their requirements. Others, such as the United Kingdom, have such production in prospect. Still others, such as Japan, are dependent 100% on imported oil to meet a large part of their energy requirements and have no serious possibility of developing domestic sources.

Some nations, such as the Federal Republic of Germany entered this period of strain and difficulty with large financial reserves and a substantial surplus in their balance of payments. Others, such as Italy, were already suffering a deficit in their balance of payments when the increase in the cost of imported oil produced the drain that now threatens their national solvency. Finally, many less developed countries - and particularly those that do not export other commodities lately enjoying high world prices - face the desperate prospect of further impoverishment unless extraordinary help is forthcoming.

To provide nations in distress with needed funds at anything approaching prevailing commercial interest rates by no means fully meets their problem. They

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cannot afford, over a protracted period, to continue to build up enormous external debts with the resulting cumulative burden of carrying charges. At the end of that road is chaos -- defensive actions of the most destructive kind, drastic restrictions on trade and capital movements, disruptive swings in currency parities, and ultimately moratoria and repudiations. Thus specially tailored financing is required of a kind that cannot possibly be provided from the private sector. The banking system has already reached the limits of its capacity to provide credits to such countries.

## III

These realities, which the United States Government for so long ignored -- even denying they existed -- were finally acknowledged by Secretary Kissinger in a speech on November 14, and by Secretary of the Treasury Simon four days later. These speeches put forth the rough outline of an American recycling proposal, or at least an impressionistic portrayal of an imprecise idea. That idea did contemplate that the governments of Western Europe, North America and Japan might put in place a system of mutual support through the creation of a common facility capable of redistributing up to as much as \$25 billion in 1975, and as much again the following year. It embodied a mechanism for recycling, at commercial interest rates, some of the funds flowing back to the industrial world from the oil producers. Yet monies available to the facility would apparently not be directly related to the backflow of oil payments, nor would the oil-producing nations participate in the scheme. The costs and burdens would be borne exclusively by the oil-consuming nations.

Though the plan is described merely as a standby facility --



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a "safety net" -- to be used only when other financial sources prove inadequate, it seems likely --

if the facility is created and is used at all - that its operations will necessarily involve the participating countries in the assumption of some very bad credit risks. Thus the costs and burdens of the scheme are likely to be considerable.

The American plan is, of course, only one of a number that have been proposed. The European Economic Community has created a special facility, so far limited in amount to \$3 billion - or \$2 billion after the provision for interest charges - and there has been a facility established in the International Monetary Fund at the initiative of Secretary General Wittaveen, and another proposed by the Secretary General of the OECD, Mr. Van Lennep. Moreover, the Chancellor of the Exchequer of Great Britain, Denis Healy and the Chancellor of the Federal Republic Helmut Schmidt, have both made useful proposals.

I recognize that the American plan faces a number of obstacles; not only have the French indicated their intention not to participate, but they have reduced the participation of the European Economic Commission to that of a mere observer, while the Federal Republic has shown considerable reluctance to go along with a plan that may place substantial burdens on it. Finally, there is always the question of the United States Congress, which does not seem to have been consulted prior to the proposal of the plan in Secretary Kissinger's speech. I have considerable doubt whether the Congress will enthusiastically support a measure that would, in effect, make the United States and the Federal Republic the guarantors of the balance of payments of the major industrialized countries. The question the Congress will most certainly ask is why the plan does not provide

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for obtaining necessary funds directly from the oil-producing states, or why it does not involve the oil-producing states in assuming part of the burden.

Nevertheless, we must not lose time in a long haggle over the exact arrangements we intend to put in place for recycling the excess capital flowing into the oil-producing states, for we have already lost many valuable months and unless we move promptly we may face a collapse of the entire financial structure of the non-Communist world that could bring about "beggar my neighbor" policies and reduce our financial relations to chaos. I need not comment on the impact of such a development on the political stability of several key nations.

So I hope that, in spite of the defects of the American plan, we get on with some serious discussion of a recycling or guaranty mechanism that can be put in place promptly. Meanwhile, there is no harm in considering its defects as well as its virtues.

#### IV.

In my view the most notable deficiency of the American scheme - and of most of the other schemes so far proposed - is that, by their terms, the consuming countries would assume the whole burden of recycling, while those producing countries responsible for the creation of the problem would be offered no role to play. Nor is the structuring of the American proposal in this way by any means accidental. It reflects the intention to confront the oil-producing countries rather than seek their cooperation. That is an attitude which has shaped American policy toward all aspects of the oil problem; in fact, a considerable part of America's diplomatic effort with its allies during the past few months has been to try to prevent the nations of the European Economic

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Community from meeting with oil-producing states. The American objection as stated is that such a meeting would be premature. Before any such meeting should occur, the oil-consuming nations should have formulated a fully agreed position. In the words of Secretary Kissinger, the "conditions for a constructive dialogue will have been created" only after the consuming nations "have taken some collective steps toward a durable solution - that is measures to further conservation and the development of new additional supplies<sup>s</sup> - and for our interim protection through emergency planning and financial solidarity," and, if these hurdles are finally overcome and a dialogue eventually takes place, the "main subject must inevitably be price".

One difficulty with this position is, as I have already mentioned, that the United States itself has done virtually nothing to put in place a program for "conservation and the development of new supplies", and in the absence of visible and effective American action, even our shrillest exhortations are unlikely to inspire other nations to act. So it may be a long, cold day - and I use the adjective advisedly - before the consumer nations have fully met Mr. Kissinger's preconditions and are thus in a position to begin discussions with the OPEC countries.

Such a long postponement of a serious dialogue would, in my view, be a serious error, and we should carefully scrutinize the logic that prompts this rigid position. One element, I suspect, is a tactical aversion to dealing en masse with the OPEC countries, and particularly the Arab nations -- since it is feared that might tend to consolidate the cartel which the consuming nations would like to see disintegrate. In addition, there is no doubt some concern that the meeting might result in pushing the more moderate OPEC governments toward harder positions by focusing the pressure from their more activist neighbors; certainly that has been an underlying tactical assumption

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of the American government in shaping negotiations for a solution to the Arab-Israeli conflict.

But the fundamental reason for not engaging the OPEC countries in a dialogue derives from the strategy of confrontation implied in Secretary Kissinger's remarks. What is presumably envisaged is that after the consuming countries have reached a common agreement on handling the financial problems resulting from capital flows and have taken concerted action to reduce demand and increase other sources of production, they would then be in position to sit down with the producing countries and demand a lower oil price.

Such a conception raises many questions. If, as American officials assert, the producers' cartel will disintegrate and oil prices be forced down, is that not more likely to result from the silent operation of market forces than from the give and take of a formal negotiation? In fact, is not the prospect of confrontation more likely to unite than fragment the cartel?

The answer depends at least in part on the extent to which oil prices reflect political, as opposed to purely commercial, considerations and that, in turn, varies from one producing state to another. Those states where the capacity to produce oil far exceeds the current capacity to absorb funds are Saudi Arabia, Kuwait and Libya. For these states which have no present need for large revenues, the purely economic question <sup>to</sup> as to whether it may be more advantageous to leave oil in the ground or sell it at the current market is by no means a simple equation. No one can predict with any assurance the relative purchasing power of oil ten years from now.

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Nor can one assume that, in terms of political considerations, such states as Saudi Arabia or Kuwait are completely free agents. They must respond to the dynamics not only of Arab politics but of OPEC politics. Saudi Arabia may prefer, in order to strengthen its ties with the U.S. and for other reasons, to reduce oil prices, but it is not likely to go against the strongly held views of more activist Arab states or of Iran - as experience has vividly demonstrated.

As an abstract idea, the concept of the consuming countries negotiating as a solid group with the producing countries to obtain lower oil prices has considerable appeal, but - in view of the complex currents and cross-currents among the oil-producing nations - it would probably tend to solidify OPEC more than fragment it. Presumably, in any such negotiation the full arsenal of political and economic inducements would be brought into play - promises of technical aid organized through the public sector as well as political and military assistance - but in view of the prevailing competition between America and individual nations of Western Europe for arms sales, I am not sure that the consuming nations as a group could effectively utilize those inducements.

Quite understandably, Mr. Kissinger wishes to use the West's control of the transport, refining and distribution of oil as a major bargaining counter. But what that would involve is the extension of a considerable degree of governmental direction over those activities, as well as the imposition of wide-ranging controls and restrictions which deserve the most careful consideration. A move toward state trading on the scale that implies would certainly be a novel venture for America; it is one that needs careful airing in the public marketplace before we take irrevocable steps down that road.

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On balance I am inclined to think that the strategy of trying to solidify the West and then engage in a bargain for lower oil prices is not well conceived, since it would too strongly suggest a confrontation and thus tend to strengthen the hands of the more activist states in the OPEC cartel. A more practical course, it seems to me, would be for the consuming countries to institute as soon as possible a continuing discussion with the OPEC nations in which we seek to enlist their cooperation with regard to the whole range of questions created by their price actions - including the problem of recycling without specifically seeking an adjustment of prices. Meanwhile the consuming countries can, by taking effective measures to reduce demand and increase non-OPEC supplies, create a market environment in which the disparities in the situations among the various OPEC countries will operate to weaken their common front.

Not only are we likely to defeat our own ends by the kind of confrontation Secretary Kissinger seems to contemplate, but we cannot, it seems to me, mobilize many effective bargaining counters other than market pressure. Regardless of the talk that sometimes passes as wisdom, military threats simply are not credible. In spite of the dark mutterings of our statesmen, automatically qualified or retracted the following day, we are not going to persuade the OPEC countries to stop overcharging us by launching a military expedition to the Middle East. Many things have changed since 1958 when America landed troops on the Lebanese beaches with no opposition. Even more has happened since 1956 when America rather sanctimoniously forced its British and French allies to withdraw from Suez. Today there is a Soviet Black Sea fleet patrolling the Mediterranean alongside America's Sixth Fleet. There are substantial beachheads in Syria and Iraq, and, probably soon after Mr. Brezhnev completes his forthcoming visit to Cairo, there will once more be a Soviet position in

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Egypt. Finally, we no longer live in a world of nuclear superiority but of nuclear parity - and neither we nor the Soviets dare risk a head-on clash. Yet I cannot believe that the Soviets would stand idly by while we expropriated the oil wells of the Middle East. In fact we ourselves demonstrated in October 1973, by proclaiming a worldwide military alert at the mere suggestion of a possible Soviet intervention, that any military move by one superpower in that area would be countered by the other. So we should reconcile ourselves to the reality that no responsible government in Washington would ever turn the oil-producing areas of the Middle East into a nuclear Armageddon.

If no solution by force is possible, neither is any solution by the sanctions of economic denial. Anyone who studies the limited import requirements of the Middle East must necessarily come to that conclusion, since there is little the area desperately needs that it could not procure either from Eastern Europe or the Soviet Union -- or elsewhere. And, on the basis of our experience so far, I think it doubtful the West or Japan would submit to the discipline <sup>an effective</sup> of a program of economic sanctions would require.

I question, therefore, whether it is wise to delay a serious dialogue with the OPEC countries until the consuming nations have taken all the steps listed in Secretary Kissinger's speech. Certainly, at the rate America has been going, it will be a considerable time before we have a full-blown plan of conservation finally in place - although I would certainly hope that, when Congress returns after the first of the year, the mood of the country will force far more drastic and urgent action than anything the Administration has so far contemplated. Time is wasting and the breakage from the high energy costs and massive capital flows is beginning to accumulate.

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Not only should we promptly talk with the OPEC countries but we should, in my view, enlist their cooperation in trying to find a common solution to the common financial problems the world now faces as a result of their actions. It was with this in mind that last September I proposed, in a speech in London, a recycling scheme that differed substantially from that since put forward by Secretaries Kissinger and Simon, and, in my view, offered substantial advantages. Rather than continuing in the prevailing vicious atmosphere of confrontation, I suggested that we try to create a recycling facility in which the OPEC countries would fully participate. That many of them are seriously concerned by the threatened damage to the world financial system seems, from the evidence, quite clear, and we do them a great injustice by assuming a priori that, because they are unprepared to reduce oil prices, they would be unwilling to join

a cooperative effort to find a long-term solution to the havoc such prices are creating. A scheme for such cooperation has already been put forward by the Shah of Iran and, from my own observations in the Middle East, I think it likely that the OPEC nations would respond to a well considered approach.

That was the starting point for my proposal. I suggest<sup>ed</sup> that we invite the OPEC countries to play a co-equal role in the design and construction of a special financial institution which might be called the Fund or Bank for Capital Recycling. That facility, I suggested, might be set up alongside the Bretton Woods institutions, drawing on them for personnel at least in the early stages. It would, however, differ from the Bretton Woods institutions - and in that sense would be more attractive to the producing countries - in that the institution would be owned 50% by a group of major consuming countries and 50% by the OPEC countries, with each group sharing equally in voting rights and management. Apart from the capital subscribed by each side the funds for relending would be obtained by issuing forms of debt instruments



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designed especially to meet the requirements of the producing countries - debt instruments that would probably contain some provision for maintenance of value. Since the OPEC countries have suffered severe losses from currency devaluations and from the inflation in the cost of the goods they buy it seemed to me that a maintenance of value provision might appropriately be related to the changing terms of trade. Another possibility, as I now see it, is that, since the option of the OPEC countries is either to produce oil or retain it in the ground, repayment might be related to the purchasing power of a barrel of oil at the time of repayment.

In any event I foresaw the possibility that the new institution might be able to attract a reasonable proportion of the excess capital of the OPEC countries since the institution would belong to them as much as to the United States, Western Europe and Japan.

The advantages of such a scheme seemed considerable. At least it might establish that, as some contend, the OPEC countries are not interested in joining a constructive common enterprise. But if they did choose to participate - as I think probable - they would then take some share of the responsibility for the consequences of their oil price policies and might operate as some constraint on further irrational price increases.

An initiative of the kind I proposed would, as I saw it, make it more attractive for the OPEC countries to invest their revenues over and above the amounts they were able to absorb internally or to invest externally. Of course, the procedures for relending the funds would have to be carefully designed. Since one of the objectives of the enterprise would be to help less-developed countries, arrangements would have to be made for subsidizing concessionary interest rates, with the OPEC nations assuming their share of the subsidy. Beyond that the bank would endeavor to provide capital to bridge the period required for the oil-producing and oil-consuming countries to make the necessary adjustments to the new high level of energy costs, and thus ameliorate the price?

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But if we are to buy that time we would do well to change our attitude and our manners. Those of us in the oil-consuming nations should stop accusing oil-producing nations of "ganging up on us" or of "holding the consuming nations to ransom". Such epithets may provide an easy means for relieving the feelings of overwrought politicians but since there is little we can do to correct the situation - and especially since we are not even doing what we can to exploit market pressures through the curtailment of consumption and the expansion of production - we might try the interesting experiment of substituting cool thought for indignation.

"What is truth on one side of the Pyrennees," wrote Blaise Pascal, "is error on the other side.", so we might try to appraise the problem as it looks from Riyadh or Kuwait or Teheran. Only on that basis, and in that spirit, might we be able to engage the OPEC countries in a common effort to resolve a common problem - the distortions produced by the massive and protracted capital flows resulting from the OPEC price decisions.

Nor should we be put off by fear that a cooperative scheme such as mine would give the OPEC countries too much control over the financial welfare of industrialized countries. It would not be the only mechanism in the field - there are already the others I have mentioned - and any attempt to politicize the decisions of the recycling bank could well be offset through other mechanisms.

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Again, there has been a feeling in some quarters that to enlist the oil-producing states in a common effort to mitigate the consequences of their price decisions would tend to be interpreted as a ratification of those decisions and thus relieve them of pressure to reduce prices. That does not seem to me to show a realistic appreciation of the situation in which we now find ourselves.

In the final analysis, it seems to me, participation in such a common enterprise might have a sobering -- indeed, an educative influence -- on the OPEC countries. Nothing is more likely to generate a sense of responsibility than the experience of responsibility.

Whatever mechanisms we may establish to mitigate the dislocations resulting from excessive capital flows, we must recognize that, over the months ahead, many nations are likely to find themselves extremely hard pressed economically. They face increased energy costs, which operate very much like an externally imposed tax draining off investment capital, serious balance of payments problems, and the prospect that worldwide inflation will force on nations deflationary policies that could result in the slowing down of economic activity, unemployment and all the maladies that come with it, including the ills of political instability.

If we are to view this near-term future realistically, we must also take account of the serious possibility of a renewed oil embargo as the result of another flaring up of shooting war in the Middle East. One need not be a pathological pessimist to recognize that this is by no means a fantasy.

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At the very outset of the American effort to promote a Middle Eastern settlement, a decision had to be made as to assumptions on which strategy should be based. One possible assumption was that the Soviet Union favored the continuance of turbulence in the Middle East, so long as that did not threaten a direct US-USSR confrontation. The second was that the Soviet Union considered detente so important and the dangers of a head-on collision so grave that it would prefer a stable Middle East so long as it could play a co-equal role in bringing about that stability.

If one accepted the first assumption, that the Soviet Union might seek to sabotage, or at least delay, any efforts at settlement, America should clearly try to limit Soviet influence and insulate the Kremlin from settlement discussions. But, if one assumed that the Soviets would prefer a stable Middle East provided they played a co-equal role in bringing it about, we should have promptly enlisted their help.

In embarking on his brilliant round of shuttle diplomacy Secretary Kissinger seems to have opted for the first assumption, since he quite deliberately picked a bilateral format that excluded not only the more activist Arab states but the Soviet Union as well. His tireless efforts proved successful in bringing about a military disengagement, first on the Egyptian and then on the Syrian fronts. But since the recent Arab summit conference at Rabat and Arafat's UN speech on November 13, it seems clear that Mr. Kissinger's conception of a step-by-step solution of the Arab-Israeli conflict is now approaching a dead end. The more activist Arab states are not

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prepared to see Egypt negotiate a solution of the Sinai issue that could effectively cause it to lose interest in further negotiations of other issues. They are thus insisting on linking any further bilateral discussions on the Sinai issue with at least some simultaneous discussions of the issue of the Golan Heights on which rapid progress seems extremely difficult.

Above and beyond that, however, the two principal substantive issues involved in the Arab-Israeli dispute -- Palestinians and Jerusalem -- are issues that engage the interests of all of the Arab states and are, therefore, not available for settlement in a bilateral context. This might not have been the case with the Palestinian issue had the Arab leaders been willing to agree that King Hussein could conduct the negotiations and that the resultant Palestinian state would be tied to Jordan in some juridical manner. But the decision to turn over to the Palestinian Liberation Organization (the PLO) final responsibility for a Palestinian state meant that the negotiation could take place only at the Geneva Conference where not only the more militant Arab states will be represented but where the Soviet Union acts as Co-Chairman. Under these circumstances, the strategy of bilateral negotiations has run its course, and it seems clear that no Middle East settlement of the Arab-Israeli conflict is likely to be achieved without the concurrence of the Soviet Union -- which means, in practical terms, without giving the Soviets a co-equal role in bringing about a settlement.

That we should offer such a role is a conviction I have held for sometime. In fact, in an article in Foreign Affairs in July 1969, I recommended that the United States enlist the coopera-

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tion of the Soviet Union in a joint effort to fill in the terms of a settlement within the framework of Security Council Resolution 242 that was adopted in November of 1967. I went even further in suggesting that the only possible solution of the Middle Eastern conflict was for the two superpowers to concert their efforts and, in effect, to "impose" a settlement on the contending parties.

I recognize that "impose" is one of those symbolic words which should be shunned in polite diplomatic company. Even during the palmy days of the Concert of Europe, the major powers regularly insisted that they were not "imposing" a peace, in spite of the presence of gunboats in the harbor. But there are occasional situations in which passions and history so disable the contending parties from settling their differences that a strong external authority must be resorted to if world peace is to be preserved. There is, I think, respectable authority for the proposition that the Security Council has the authority to develop the terms of a settlement; and, if they cannot impose it under the mandatory provisions of that Charter, there are certainly other ways in which it can be imposed, provided the superpowers are in accord.

I would go even further and suggest that a solution is probably only possible if, once the terms of a settlement are agreed between Moscow and Washington, provision is made for joint guarantees by the superpowers, and even, perhaps, for joint <sup>Soviet-American</sup> patrols of the buffer areas.

I recognize the far-reaching implications of giving the Soviet Union such access to the Middle East, but they are already

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there -- in Syria, Iraq, and I suspect, after the forthcoming Brezhnev visit to Cairo, in Egypt as well. And if the peace of the world is to be protected, we may have to overcome some of the constraints and inhibitions that result from a too rigid interpretation of prevailing slogans and shibboleths.

There is, of course, no assurance that the Soviet Union would be prepared to play such a constructive <sup>role</sup> ~~course~~. But the time has come when we should find out whether the expansive talk of the beauties and glories of detente has much practical meaning. There are two acid tests of detente. One is, of course, the control of nuclear weapons and it is not yet clear how much, if any, the recent Vladivostock talks may have advanced that cause. Equally important, it seems to me, is the Middle East, which could well become the Balkans of the latter twentieth century, resulting in a dangerous collision between the major powers. I see, therefore, no reason why approaches should not be made to the Soviet Union to ascertain at least whether the course of action I have outlined finds any resonance in Moscow. Certainly, it could be fully justified under the pious statements that have been made at summit conferences -- the Declaration of Basic Principles between Mr. Nixon and Mr. Brezhnev in 1972, and the Agreement for the Prevention of Nuclear War they signed in Washington in 1973.

I have outlined in detail the basis for such a course of action in an article that will appear in the next few days in the Atlantic Monthly, and I strongly urge that such a course be promptly considered. If the negotiations are permitted to drag, the negotiating

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process loses its momentum, and the Palestinian issue continues to fester, then the probability of war seems to me grave indeed.

It is here that the oil issue and the issue of peace in the Middle East come close together, for since last January a wholly new element has been added by the increase in oil prices. The Arab oil-producing states now have unlimited capital -- in fact, far more than they can spend. At the Rabat conference they voted to grant the front-line Arab states \$2,350,000,000 for additional weapons. Thus the Middle East is rapidly becoming the world's greatest arsenal, with every Western European country vying to pour more arms into that troubled area, not only to ingratiate itself with the oil producers, but to improve its own balance of payments.

From the point of view of the Israelis, time is thus no longer on their side. They are now, I think, fully aware that a nation of 2-1/2 million people cannot, in the long run, prevail against 100 million Arabs amply financed and armed with the most advanced weaponry.

If momentum toward peace is not maintained, therefore, the Israelis will be under great pressure to launch a preemptive strike against Syria before many months. If they wait too long -- which means if they wait even until next Fall -- the inflow of arms into Syria -- and into Egypt, once a new deal is made with the Soviet Union -- will threaten Israel's survival. Although a preemptive strike would do nothing to solve the <sup>problem of peace</sup> ~~problem of peace~~ -- merely exacerbating already inflamed feelings in the area -- it might at least buy time for the Israelis, while the West renews its efforts to find <sup>such</sup> a settlement.



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If such a preemptive strike were to occur, I doubt that it could be limited to conflict between Israel and Syria, in spite of the desire of Egypt not to engage in another war. The dynamics of Arab politics would seem to preclude it, <sup>ch</sup> must as they would seem likely to precipitate a further oil embargo, even though such major producing states as Saudi Arabia might wish to avoid turning off the oil spigot again.

These are realities of the situation. I do not wish to appear as alarmist, or even as overly pessimistic. But we would do well to face the future possibilities with a clear appreciation of what the months ahead may hold for us.